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RULSDMK/DEPT OF TRANSPORTATION WASHDC  
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RUEHRC/DEPT OF AGRICULTURE WASHDC  
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SENSITIVE

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DEPT OF ENERGY FOR A/S KHARBERT TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR CLILIENTFELD/AADLER  
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE  
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER  
EEB/CIP DAS GROSS, FSAEED, MSELINGER  
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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY 5-9, 2008

REF: NEW DELHI 0902

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11. (U) Below is a compilation of Economic highlights from Embassy New Delhi for the week of May 5-9, 2008, including the following items:

- GOVT MOVES ON DIVESTMENT PLANS
- GOVT BANS SOME MORE FUTURES TRADING
- CONTROVERSY OVER BIOTECH CROPS AND FOOD
- INDIA INCREASES FOOD GRAIN STOCKS
- HRD PROPOSES BUREAUCRATIC RULES FOR INTERNATIONAL SCHOOLS
- UPDATE ON INDIA'S EXTERNAL SECTOR
- THINK TANK ESTIMATES COST OF RESERVES
- CHILI MARKET BURNS DOWN; CHILI FUTURES HEAT UP
- CHENNAI TO GET SECOND AIRPORT BY 2013?
- FINANCE MINISTER BACKS GLOBAL AUCTION FOR 3G SPECTRUM
- GOI-OWNED BSNL FLOATS 93 MILLION LINE, US\$10 BILLION TELECOM EQUIPMENT TENDER

GOVT MOVES ON  
DIVESTMENT PLANS  
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12. (SBU) Press reported this week that the Ministry of Finance's Department of Divestment (DOD) has started due diligence on divestment plans of various profit-making public sector units, first reported in reftel. DOD has asked the relevant ministries to submit requested financial information by May 15 to identify those public sector units with a net worth of at least Rs 200 crore (approximately \$50 million) and three consecutive years of profitability, to be eligible for listing on the exchanges and possible divestment of 5-10% of government ownership. DOD

anticipates roughly two dozen public sector enterprises will be eligible, including Nuclear Power Corporation, Cotton Corporation of India, Indian Railway Fund Corporation, Hindustan Paper, Coal India, and Goa and Cochin Shipyards.

#### GOVT BANS SOME MORE FUTURES TRADING

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13. (SBU) The government announced on May 7 a ban on futures trading in four agricultural commodities - chana (a lentil), soyoil (an edible oil), potato and rubber, after weeks of threatening the move.

Together, chana and soyoil account for nearly 40% of turnover on the National Commodities Derivatives Exchange (NCDEX). Analysts estimated that \$180-250 million in daily turnover on the commodity exchanges would be disrupted because of the ban. The move - which is to be in place for at least four months - is expected to further dampen investors' sentiment, after last year's ban on trading wheat, rice and some pulses. Meanwhile, the initial reaction in the commodity markets was the opposite of the putative anti-inflationary attempt, with prices going up, although only by 3%. The ban on soyoil led immediately to a sharp rise in spot prices for all edible oils. The same day as edible oil prices rose in spot trading, the Minister of State for Industry, Ashwani Kumar, told press that the price of edible oil had decreased 19% between March 1 and May 6, while wheat prices declined 9% and those of rice and pulses went down 1.64 and 7.69% respectively.

#### CONTROVERSY OVER BIOTECH CROPS AND FOOD

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14. (SBU) The Coalition for GM Free India, a front for Green Peace, organized a rally in Delhi on Tuesday, May 6, 2008 seeking a ban on

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genetically modified food crops, more specifically Bt egg plant which is being examined by GOI for final commercial release. Besides the regular anti-GM activists, some media celebrities, politicians and farmer representatives participated in the protest. BJP leader and former Minister of Science and Technology Dr Murli Manohar Joshi addressed the rally alleging that the GM crops were another attempt by the foreign corporates to take over Indian agriculture. The protest is has come at a time when Indian biotech regulators in the Genetic Engineering Approval Committee (GEAC) is considering application for approval of Mahyco's Bt egg plant for cultivation in India, which may be the first approved GM food crop in India and first approved GM vegetable crop in the world.

15. (U) The protest comes at a time when the GOI is considering an application for seed production for Mahyco Seed Company's Bt brinjal (eggplant), the first such biotech vegetable in the world. Indian media has also reported claims by Greenpeace India that Doritos containing Mon 863 and NK 603 variety biotech corn ingredients were imported into India, violating the ban on the sale of biotech food products without the permission of the GOI's Genetic Engineering Approval Committee (GEAC). Pepsico denies that it imports these chips into India.

16. (SBU) Industry sources report that these kinds of ad-hoc protests were anticipated as final approval of eggplant moves forward. The food safety trials are already over and large scale multi-location field trials for assessing environmental safety and agronomic performance are going on under GEAC's guidance. The last set of field trials are expected to be over by end of 2008 and the Bt eggplant is set for approval -if all goes well-- in early 2009 depending on the politics of the pro and anti GM lobby.

17. (U) The Indian Food Safety Act, 2006, provides for the establishment of a regulatory body - the Food Safety and Standards Authority (FSSA) - which is yet to be implemented. In 2007, the Ministry of Environment and Forests issued a notification saying that GEAC would no longer regulate biotech processed foods. After protests from activists and court orders, the Ministry suspended that notification and GEAC continues to regulate all biotech crop and food proposals. India has so far only permitted the use of Bt

cotton in the country.

18. (SBU) Speaking on the issue, Dr Mangala Rai, Director General of Indian Council of Agricultural Research said, "Nothing is untouchable. Risk assessed GM crops are good and the government's policy is crystal clear on this. GM crops can increase stagnating yields of food crops and answer the concerns about India's food security. For problems of future, we will need the futuristic answer that lies in transgenic." Significantly Dr Rai, who heads India's agricultural research system, has rarely spoken in favor of GM crops as in private he tends to waiver between MNC bashing on GM technology monopoly vs. stating GM crops are safe and needed for Indian agriculture. His public statement is a step forward as Indian agricultural scientists show the courage of their conviction.

INDIA INCREASES FOOD  
GRAIN STOCKS  
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19. (U) According to GOI food procurement agencies, wheat and rice stocks continue to swell as India procures sufficient quantities of the grains from local markets. Government agencies buy grains from local farmers for emergency needs as well as to provide subsidized rations to the poor. India imported 5.5 million tons (MT) of wheat in the past two years in order to meet local demands. Recently, in an attempt to ensure the adequate supply of food grains and to tame

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inflation, it has banned exports of wheat and rice.

110. (U) According to the government food procurement agency, the target of 27 MT of rice is likely to be reached by September 2008. Current rice stock levels are 23.2 MT - 1.8 MT more than the previous year's level. Wheat stocks are at 17 MT, having more than doubled last year's level, and are expected to reach about 20 MT by September 2008. With a capacity to store up to 25 MT of wheat, India could also import wheat if needed. A GOI Committee of Secretaries has recommended easier procedures for wheat imports to avoid delays. According to official sources, record food grain production of around 227 MT in 2007-08 coupled with increased minimum support prices (MSP) for farmers has helped India achieve a comfortable food grain stock position. However, India's bulging food grain stocks offer no comfort to countries that face shortfalls because of the recent export curbs.

HRD PROPOSES BUREAUCRATIC  
RULES FOR INTERNATIONAL SCHOOLS  
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111. (U) The Department of Education in the Ministry of Human Resource Development (HRD) has proposed 'stringent norms' for regulating international schools in India, including in areas such as curriculum, fee structure, and even the number of foreign teachers appointed in such schools. In a particularly poignant display of HRD circular reasoning, Ministry officials have justified the proposal by stating that the idea is to make the international schools adhere to certain rules which are not in place at present, such as no bar on the number of foreign teachers. The HRD ministry believes that the number of international schools in India has risen significantly recently, and a well-defined policy is required to regulate such institutions. If the proposal is approved by the Cabinet, international schools will have to obtain permission from the GOI before starting their operations in India. In addition, the schools will have to secure from the concerned state that ubiquitous fixture of GOI bureaucracy, the 'no-objection certificate'.

UPDATE ON INDIA'S  
EXTERNAL SECTOR  
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112. (U) Recent balance of payments data for FY2007-08 released this week shows that India experienced another balance of payments surplus, from high portfolio and investment flows, even though the trade deficit further expanded to \$80 billion. On the trade side, exports during FY 2007-08 were up 23% to \$155 billion, while imports

grew at 27% to \$235.9 billion. Net invisible earnings, at \$67.6 billion, helped mitigate the current account deficit, containing it at 1.8% of GDP. Higher remittances from overseas Indians (\$35 billion) and software service exports were primarily responsible for the strong rise in invisibles. Total capital inflows were robust at a record \$99.1 billion. About \$41 billion was on account of portfolio investments, while foreign direct investment flows contributed another \$24.6 billion. Indian companies borrowed nearly \$31 billion through the external commercial borrowing route during FY 2007-08. The surge in capital flows led to an additional \$100 billion in foreign exchange reserves, reaching a record \$312.87 billion at end-April 2008, sixth largest in the world.

¶13. (U) Despite strong appreciation of the rupee and high interest rates, Indian exports grew at a robust pace of 23% in dollar terms in FY 2007-08 to reach \$155.5 billion; although growth in rupee terms was roughly 9%. Due to the global slowdown, the past year has seen a shift towards the Middle East and Chinese markets from the traditional markets like the US and the European Union. Similarly, high oil prices and investment-led expansion kept imports buoyant,

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growing by nearly 27% at \$235.9 billion during the year. Import growth was largely driven by the large oil import bill of \$90 billion.

¶14. (U) Recent government data indicates that India received record foreign direct investment (FDI) of \$30 billion (including reinvested earnings) in FY 2007-08, versus \$19.4 billion in FY 2006-07. This makes India the largest recipient of FDI in Asia after China and Hong Kong. Significantly, 80% of the total FDI inflows in FY 2007-08 were greenfield investments and not through acquisitions. The sectors that attracted FDI during the year include services, housing, construction, electrical equipment, computer software and hardware. As usual, Mauritius remains the most preferred route for FDI inflows into India, followed by US and Singapore.

¶15. (U) Portfolio flows by foreign institutional investors (FIIs) hit \$41 billion, despite the market slide in the last quarter of the fiscal year. Indian companies' foreign borrowing spree, to finance investments and acquisitions at home and abroad, continued. According to the Reserve Bank of India's (RBI) recent data, about 625 Indian companies borrowed nearly \$31 billion through the external commercial borrowing (ECB) route during FY 2007-08, even with the ECB restrictions issued last August.

¶16. (U) India's foreign exchange reserves stood at \$312.87 billion at end-April 2008, sufficient to finance approximately 16 months of imports and act as a strong cushion against external shocks. In December 2007, the Prime Minister's Council of Trade and Industry suggested the creation of a \$5 billion sovereign wealth fund (SWF) to finance overseas acquisitions of Indian firms. The SWF could help domestic companies to acquire energy assets such as oil, gas and coal across the world. The RBI had also signaled publicly its willingness to create a SWF. However, Finance Minister Chidambaram told the Upper House of Parliament this week that the GOI has no plans to establish a SWF, since no directive has been issued by the Prime Minister.

THINK TANK ESTIMATES  
COST OF RESERVES  
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¶17. (U) Meanwhile, the Indian Council for Research on International Economic Relations (ICRIER), a well-known economic think tank, recently released a report titled, 'The cost of holding excess reserves: the Indian experience', in which it estimates that India is losing more than 2% of its GDP by accumulating reserves instead of employing them to increase the physical capital of the economy. The report argued that the country could gain more than 0.3% of GDP by using the resources absorbed in reserve accumulation to reduce the private sector's external commercial borrowings or public sector debt. The report further says that RBI needs to maintain reserves in liquid US treasuries to meet the needs of current account financing, short-term external debt obligations and to stem the rupee's volatility. The remaining reserves could be parked in an account and

put to better use to improve returns, such as investments in equities, private equity, and real estate.

CHILI MARKET BURNS DOWN;  
CHILI FUTURES HEAT UP  
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¶18. (U) A May 3 fire at one of Asia's largest chili markets, located in the town of Guntur in the South Indian state of Andhra Pradesh, reportedly roasted the entire stock of 200,000 bags of chili into cinder. The lack of appropriate equipment for fire personnel hindered efforts to put out the blaze. An Andhra Pradesh Agriculture Department official told Consulate Chennai that the loss

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amounted to two weeks' supply. The states of Karnataka and Andhra Pradesh are expecting a bumper crop of chili that should hit markets in mid-July. Traders, however, may not be convinced of the alleged impending bounty, as 100-kg bags fetching USD 119 now are going for USD 132 in the futures market for August delivery. A top official at a company that exports spices and oleoresins to the United States told us that it is still too soon to judge the ultimate extent of the fire's impact. He said that the price of chili had shot up, but that it would take more than a week before the situation became clear.

CHENNAI TO GET SECOND  
AIRPORT BY 2013?  
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¶19. (SBU) The continuing growth of South India's air transport sector (domestic traffic at Chennai's airport in the past year was up 59 percent, according to an airport official) apparently has spurred the state of Tamil Nadu's government to hasten its plans for opening a second airport. Tamil Nadu Industries Secretary M.F. Farooqi told Consulate Chennai that his government is already discussing the modalities of a second Chennai airport with central government authorities in New Delhi. He said that he believes the airport, to be located in the Sriperumbudur industrial area 50 km west of Chennai, can be up and running as soon as 2013. (Comment: Given that the precise location of the second airport and the structure of the project (public-private partnership, government-only, or private) have yet to be decided, the Minister's target of 2013 looks to be wildly optimistic. End comment.)

¶20. (U) Farooqi also told us that the next phase of the current airport's expansion will begin during the first week of June. This expansion has bogged down for eight years because of resistance from 947 landholders who own slightly less than 1070 acres of land needed to add a second runway. The additional runway and an expanded terminal should allow the airport to handle 50 aircraft movements per hour, compared with 28 presently.

FINANCE MINISTER BACKS GLOBAL  
AUCTION FOR 3G SPECTRUM  
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¶21. (U) In a positive sign for U.S. telecommunications services companies, such as AT&T and Verizon, India's Finance Minister P. Chidambaram -- in an April 21 letter to the Ministry of Communications and Information Technology (MCIT)'s Minister A. Raja -- endorsed an "open, global auction" allowing all potential foreign players to participate in the upcoming auction for coveted radio frequency spectrum for Third Generation (3G) wireless communications, such as Blackberry-type high-speed data, video, and audio services. Chidambaram's letter supports the MCIT Department of Telecom (DOT)'s position in opposition to the recommendation of the Telecom Regulatory Authority of India (TRAI) that only the incumbent telecom service operators and license holders in the 2G spectrum (i.e. regular cell-phone voice and simple text messaging services) be allowed to participate in the auction for 3G spectrum -- a move that would have effectively excluded U.S. and most other foreign telecoms. If MCIT/DOT overrides TRAI's recommendations, it would be a major blow to India's telecoms companies who have pushed hard to have new players and international telecoms barred from the auctions, but it would a major boost to global players who have

missed the 2G bus in India and planned to enter via the 3G platform, according to the Economic Times (5/6/2008).

¶22. (U) Four factors are operating in this politically-charged, high-stakes issue: potential entry of global telecom majors, who do not yet have a presence in India as the world's fastest growing

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telecom market as measured by numbers of new subscribers; future profitability of incumbent telecoms in a fiercely competitive environment; the size of revenues to accrue to the GOI from spectrum auction in a competitive market; and the cost of telecom services to the customer. MCIT/DOT draft policy would allow for all players to bid for up to 10 MegaHertz (MHz) through two blocs of 5MHz each (uplink/downlink), because new players would need at least 10 MHz to launch 3G services, whereas the existing telecom companies in 2G services would need only a total of 5MHz to migrate to 3G.

GOI-OWNED BSNL FLOATS 93 MILLION  
LINE, US\$10 BILLION TELECOM  
EQUIPMENT TENDER  
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¶23. (U) The GOI-owned telecom service company BSNL floated a tender to provide equipment for 93 million telecom lines, with a estimated value of about 40,000 crore Indian rupees (about USD 10 billion), with bids to be opened on July 16, 2008. Of the total: 21 million lines are reserved for third generation (3G) services, and the other 72 million for second generation services (2G); and 25 million lines each will be used in the North, South and West telecom zones, while 18 million will be in the East Zone. Since one company cannot win more than two zones, the maximum order for an equipment major apparently would be 50 million lines. The tender also has four components, which can be bid on individually or in combination: 2G lines; 3G lines; infrastructure; and operating support systems (OSS) and business support systems (BSS). Tender details have already been sent to global network majors including: Motorola, Alcatel-Lucent, Ericsson, Nokia-Siemens, Nortel, Huawei, and ZTE.

¶24. (U) The MCIT/DOT has not yet clarified whether 30% of the tender would be "reserved" for the GOI-owned telecom equipment company ITI, which has a partnership with Alcatel Lucent. BSNL reportedly has asked that the reservation clause not be applied in this case, as ITI has failed to deliver on time for previous telecom equipment orders. At present, BSNL has a mobile subscriber base of 36 million; the largest private telecom company, Bharti Airtel, has 64 million. The U.S. company Motorola had lost out to Ericsson in a previous, controversial BSNL equipment tender in 2006-07, after Motorola had been disqualified on technical grounds, but had dropped its lawsuit to preserve its relationship with BSNL, as noted in previous post reporting. Soon after Ministry of Communications and Information Technology (MCIT) Minister A. Raja replaced Minister Maran, the former reduced the size and per unit terms of the tender award to Ericsson. USG advocacy interest for the new tender potentially would be in favor of Motorola as a U.S. company, and of French company Alcatel-Lucent, to the degree it would source from its recently acquired U.S.-based component Lucent.

¶25. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

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